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June 17, 2013

VIA HAND DELIVERY

Jocelyn G. Boyd, Esquire
Chief Clerk & Administrator
Public Service Commission of South Carolina
101 Executive Center Drive, Suite 100
Columbia, South Carolina 29210

Re: Application of Palmetto Wastewater Reclamation, LLC d/b/a Alpine Utilities for Adjustment of Rates and Charges
Docket No. 2012-94-S

Dear Ms. Boyd:

The South Carolina Office of Regulatory Staff ("ORS") submits the enclosed study with attachments determining the effect on all commercial customer bills of Palmetto Wastewater Reclamation, LLC ("the Company") changing from the previous BOD system for determining the commercial customer equivalents to the new hydraulic loading system as approved in the Company's last rate case.

Because the attachment 2 to the study identifies specific customers by account numbers, ORS is filing the attachment 2 with a request for confidential treatment and is not serving a copy of Attachment 2 on the intervenors.

We appreciate your consideration in this matter. If you have any questions, please do not hesitate to contact me.

Sincerely,

Nanette S. Edwards

Nanette S. Edwards

cc: Benjamin P. Mustian, Esquire (via e-mail)
John M.S. Hoefer, Esquire (via e-mail)
D. Reece Williams, III, Esquire (via e-mail w/o Attachment 2)
James S. Meggs, Esquire (via e-mail w/o Attachment 2)

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Investigation of Commercial Rates
Palmetto Wastewater Reclamation,
LLC d/b/a Alpine Utilities

Docket No. 2012-94-S

Order No. 2013-193

Prepared by the Office of Regulatory Staff

June 17, 2013

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Introduction

The Public Service Commission of South Carolina ("Commission") in Docket No. 2012-94-S issued Order No. 2013-193 requesting the Office of Regulatory Staff ("ORS") perform an investigation into the rate increases experienced by commercial customers of Palmetto Wastewater Reclamation d/b/a Alpine Utilities ("Alpine Utilities") as a result of the rates approved on January 11, 2013, in Order No. 2013-3 (A). Specifically, the Commission Order requested ORS focus its investigation and report on the following items:

- 1) Determine the effect on all commercial customer bills of changing from the bio-chemical oxygen demand ("BOD") method for determining commercial customer equivalencies to the hydraulic loading guidelines;
- 2) Determine the effect of the change in the method for determining commercial customer equivalencies on each of the Alpine Utilities commercial customers;
- 3) Compare the total revenue received by Alpine Utilities from commercial customers with the expected total revenue from commercial customers at this point in time as provided for in Order No. 2013-3(A);
- 4) Inform the Commission whether ORS recommends that water/wastewater utilities adhere to the Department of Health and Environmental Control ("DHEC") standards for unit contributory loadings when designing rates; and
- 5) File the overall report with the Commission within thirty (30) days of receipt of the Commission Order unless an extension of time is requested.

ORS requested a two (2) week extension to provide the overall report on June 17, 2013. The enclosed information and attachments are provided to the Commission in response to Order No. 2013-193.

Change in Method to Determine Commercial Customer Equivalents

Alpine Utilities requested as part of its Application in Docket No. 2012-94-S to update the method used to calculate rates for its commercial customers. Alpine Utilities completed a comprehensive study of its commercial service area prior to preparing its Application to identify commercial customers and to ensure proper sand, oil, grease standards were implemented. The previously used method by Alpine Utilities employed a BOD approach as the basis for the equivalency ratings used to set monthly service rates for commercial customers that were not specifically noted in the schedule of rates and charges.

Alpine used the following BOD formula to calculate commercial customer equivalents:

$$\text{Commercial Rate} = \text{Apartment Rate} \times \frac{\text{BOD of Commercial Establishment}}{(2.8)(0.23)}$$

Alpine Utilities received Commission approval in January 2013 to calculate equivalent commercial customer rates using the DHEC Guidelines for Unit Contributory Loading for Domestic Wastewater Treatment Facilities as referenced in 25 S.C. Code Ann. Regs. 61-67 Appendix A ("DHEC Guidelines"). These DHEC Guidelines are provided as Attachment 1.

An example of how a commercial customer equivalent is calculated using the DHEC guidelines is listed below:

ABC Restaurant				
DHEC Loading Guideline	Location Information		Loading GPD	Total GPD
FF.	No. of Seat	30	40	1,200
	No. of vehicles served per day	100	40	4,000
TOTAL LOADING				5,200
1 ERC				400
Calculated ERCs				13

* ERC – Equivalent Residential Connection

** GPD - Gallons Per Day

The effect of this change on the monthly bill for all Alpine Utilities commercial customers is provided in Attachment 2. ORS observed that prior to the change in calculation methodology Alpine Utilities was not billing several commercial customers in accordance with the BOD method. This error in billing was corrected by Alpine Utilities and the correction compounded the net effect of the rate increase and change in calculation methodology. In its revenue exhibit (Amended Revised Exhibit HKM-4) submitted in Docket No. 2012-94-S, ORS corrected the error in billing by Alpine Utilities and imputed revenue for commercial customer accounts.

In addition, Alpine Utilities made a subsequent adjustment to several commercial customer equivalencies after implementing the change in method and rate in Docket No. 2012-94-S. This adjustment to commercial customer equivalencies was based on commercial customers providing Alpine Utilities with corrected information that reflected current customer level of operations. Alpine Utilities reviewed the commercial customer information and adjusted the commercial customer equivalency to accurately reflect customer operations.

Commercial Customer Revenue Comparison

As of May 3, 2013, the total annual revenue expected to be received by Alpine Utilities commercial customers was \$918,295. ORS anticipated in Docket No. 2012-94-S that Alpine Utilities would generate \$995,816 annually for the same time period.

DHEC Guidelines and Commercial Customer Rate Design

ORS contacted several other states to inquire as to how wastewater utilities and other state regulatory agencies design rates for commercial customers. As expected, the calculation methodology can vary dependent upon the wastewater utility size, the provider of water service, and the specific regulatory requirements for rate design. A summary of the sample of methodologies is provided below:

	<u>State Name/Contact</u>	<u>Size of Utility/Basis of monthly rates</u>
1	David Foster, Chief Utilities Division Tennessee Regulatory Division	Small - serves residential - ROR regulated- fixed monthly amounts or combination of fixed and usage based; Large- Serve large businesses- higher rates due to necessity for larger infrastructure and higher flow that needs treatment
2	Bliss Kite, Director Operations Division NC Utilities Commission	A high percentage of the costs of wastewater treatment operations are fixed and the costs fluctuate very little based on the volume of wastewater actually flowing into the system for treatment, consequently, the NC Commission typically establishes flat rates for sewer utility service.
3	Georgia PSC	Wastewater utilities are not regulated by GA PSC.
4	Florida PSC	Per PSC website, most wastewater rates are developed with a BFC and gallonage charge. The gallonage charge is assessed for each 1,000 gallons or 100 cu.ft. of water registered on the meter. A maximum cap, normally between 6,000 and 10,000 gallons, is set on the number of gallons of water consumption for which the customer is billed a wastewater gallonage charge. Any water consumption over that amount is considered used for purposes such as irrigation and therefore not returned to the wastewater facility.

In South Carolina, private investor-owned wastewater utilities use the following types of commercial customer rate design:

- 1) Flat basic rate
- 2) Rate based on water consumption
- 3) Rate based on commercial customer equivalencies calculated by using the DHEC Guidelines

The following private investor-owned utilities use a commercial customer rate based on the DHEC Guidelines:

Development Services, Inc.
JACABB Utilities, LLC

Midlands Utility, Inc.
Alpine Utilities
Palmetto Utilities, Inc.
Carolina Water Service, Inc.
Tega Cay Water Service, Inc.
Utilities Services of South Carolina, Inc.
United Utility Companies, Inc.
Goat Island Water and Sewer Company, Inc.

It is ORS's recommendation that regulated wastewater utilities continue to be allowed the flexibility to use various calculation methods to calculate commercial customer rates. ORS will evaluate each calculation methodology to ensure it represents the public interest. While there is no requirement to use the DHEC Guidelines to design commercial customer rates, a utility's use of the DHEC Guidelines is a reasonable method which allows the utility the opportunity to recover its infrastructure and treatment costs because the utility is required by DHEC to build a collection and treatment system to accommodate maximum daily wastewater flows. The DHEC Guidelines outline those infrastructure requirements. By using the DHEC Guidelines as a tool for rate design, a utility is able to develop rates that directly match the construction and operational cost for the wastewater system. This approach may lessen the opportunity for over or under recovery of the utility's infrastructure cost. The utility currently has the flexibility to adjust the loading factors in the DHEC Guidelines as it designs commercial rates to meet the needs of its individual customers.

61-67, Appendix A

Unit Contributory Loadings to All Domestic Wastewater Treatment Facilities	
Type of Establishment	Hydraulic Loading (GPD)
A. AIRPORT: 1. Per Employee 2. Per Passenger	10 5
B. APARTMENTS, CONDOMINIUMS, PATIO HOMES: 1. Three (3) Bedrooms (Per Unit) 2. Two (2) Bedrooms (Per Unit) 3. One (1) Bedroom (Per Unit)	400 300 200
C. ASSEMBLY HALLS: (Per Seat)	5
D. BARBER SHOP: 1. Per Employee 2. Per Chair	10 100
E. BARS, TAVERNS: 1. Per Employee 2. Per Seat, Excluding Restaurant	10 40
F. BEAUTY SHOP: 1. Per Employee 2. Per Chair	10 125
G. BOARDING HOUSE, DORMITORY: (Per Resident)	50
H. BOWLING ALLEY: 1. Per Employee 2. Per Lane, No Restaurant, Bar or Lounge	10 125
I. CAMPS: 1. Resort, Luxury (Per Person) 2. Summer (Per Person) 3. Day, with Central Bathhouse (Per Person) 4. Travel Trailer (Per Site)	100 50 35 175
J. CAR WASH: (Per Car Washed)	75
K. CHURCHES: (Per Seat)	3
L. CLINICS, DOCTOR'S OFFICE: 1. Per Employee 2. Per Patient	15 5
M. COUNTRY CLUB, FITNESS CENTER, SPA: (Per Member)	50

N.	DENTIST OFFICE:	
	1. Per Employee	15
	2. Per Chair	8
	3. Per Suction Unit; Standard Unit	370
	4. Per Suction Unit; Recycling Unit	95
	5. Per Suction Unit; Air Generated Unit	0
O.	FACTORIES, INDUSTRIES:	
	1. Per Employee	25
	2. Per Employee, with Showers	35
	3. Per Employee, with Kitchen	40
	4. Per Employee, with Showers and Kitchen	45
P.	FAIRGROUNDS: (Average Attendance, Per Person)	5
Q.	GROCERY STORES: (Per one thousand (1,000) Square Feet, No Restaurant)	200
R.	HOSPITALS:	
	1. Per Resident Staff	100
	2. Per Bed	200
S.	HOTELS: (Per Bedroom, No Restaurant)	100
T.	INSTITUTIONS: (Per Resident)	100
U.	LAUNDRIES: (Self Service, Per Machine)	400
V.	MARINAS: (Per Slip)	30
W.	MOBILE HOMES: (Per Unit)	300
X.	MOTELS: (Per Unit, No Restaurant)	100
Y.	NURSING HOMES:	
	1. Per Bed	100
	2. Per Bed, with Laundry	150
Z.	OFFICES, SMALL STORES, BUSINESS, ADMINISTRATION BUILDINGS: (Per Person, No Restaurant)	25
AA.	PICNIC PARKS: (Average Attendance, Per Person)	10
BB.	PRISON/JAIL:	
	1. Per Employee	15
	2. Per Inmate	125
CC.	RESIDENCES: (Per House, Unit)	400
DD.	REST AREAS, WELCOME CENTERS:	
	1. Per Person	5
	2. Per Person, with Showers	10
EE.	REST HOMES:	
	1. Per Bed	100
	2. Per Bed, with Laundry	150

FF. RESTAURANTS:	
1. Fast Food Type, Not Twenty Four (24) Hours (Per Seat)	40
2. Twenty Four (24) Hour Restaurant (Per Seat)	70
3. Drive-In (Per Car Served)	40
4. Vending Machine, Walk-up Deli (Per Person)	40
GG. SCHOOLS, DAY CARE:	
1. Per Person	10
2. Per Person, with Cafeteria	15
3. Per Person, with Cafeteria, Gym and Showers	20
HH. SERVICE STATIONS:	
1. Per Employee	10
2. Per Car Served	10
3. Car Wash (Per Car Washed)	75
II. SHOPPING CENTERS, LARGE DEPARTMENT STORES, MALLS: (Per one thousand (1,000) Square Feet, No Restaurant)	200
JJ. STADIUMS, COLISEUMS: (Per Seat, No Restaurant)	5
KK. SWIMMING POOLS: (Per Person, with Sewer Facilities and Showers)	10
LL. THEATERS: Indoor (Per Seat), Drive In (Per Stall)	5